STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

AMEREN ILLINOIS COMPANY d/b/a Ameren Illinois,	))))))	Docket No. 13-0476
Revenue-neutral tariff changes related to rate design. (tariffs filed on July 22, 2013)		

REPLY BRIEF OF THE STAFF OF THE ILLINOIS COMMERCE COMMISSION

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NOW COME the Staff witnesses of the Illinois Commerce Commission ("Staff"), by and through their undersigned counsel, pursuant to Section 200.800 of the Illinois Commerce Commission's Rules of Practice (83 Ill. Adm. Code 200.800), and respectfully submit their Reply Brief in the instant proceeding.

I. INTRODUCTION

A. Introduction

On July 22, 2013, Ameren Illinois Company ("AIC," "Ameren," or "Company") filed with the Illinois Commerce Commission ("Commission") the rate design formula tariff provisions of Rate Modernization Action Plan – Pricing Tariff ("Rate MAP-P"), in accordance with Section 16-108.5(e) of the Public Utilities Act ("Act"). (Ameren Illinois Company, ICC Suspension Order, Docket No. 13-0476, 1 (August 14, 2013).) Section 16-108.5(e) permits the Commission, after notice and hearing, to enter an order approving or approving with modification, proposed changes to Rate MAP-P. Id.

Under the Act, the Commission has 240 days after the utility's filing to issue a final order.[1] Section 16-108.5(c) provides in part, that any changes ordered by the Commission are to be made at the same time new rates take effect following the Commission's next order pursuant to subsection (d)[2] of 16-108.5, provided that the new rates take effect no less than 30 days after the date on which the Commission issues an order adopting the change. 220 ILCS 5/16-108.5(c). The procedural schedule in this docket contemplates a Commission final order in March of 2014. With that assumption, any changes ordered by the Commission in this docket would not take effect until January 1, 2015.

On September 11, 2013, an initial status hearing was held in this matter. In accordance with the agreed to schedule, an evidentiary hearing was held on December 11, 2013. Testimony was offered by Staff, Ameren, AG, IIEC, and GFA into evidence, either by supporting witness testimony or by affidavit. The ALJ admitted the parties' respective testimony and attachments and exhibits into evidence.

Initial Briefs ("IB") were filed on January 7, 2014 by the Illinois Industrial Energy Consumers ("IIEC"); the Grain and Feed Association ("GFA"); the Commercial Group ("CG"); the Citizens Utility Board ("CUB"); the People of the State of Illinois by Attorney General Lisa Madigan ("People"); Staff; and Ameren. Staff's IB identified and responded to many, if not most, of the arguments raised in the other parties' IB. In this Reply Brief, Staff has incorporated many of those responses by reference or citation to

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[1] 240 days from the filing at issue in Docket No. 13-0476 is March 19, 2014.

[2] Subsection (d) of Section 16-108.5 allows for hearing concerning the annual update to the cost inputs of the Company's formula rate. In a proceeding under subsection (d), the Commission is to enter its order no later than the earlier of 240 days after the utility's filing of its annual update of cost inputs to the performance-based formula rate or December 31. 220 ILCS 5/16-108.5(d). Ameren Illinois Company made its subsection (d) filing on April 19, 2013. The matter was docketed as Docket No. 13-0301. 240 days from the filing of Ameren Illinois Company's formula rate update filing is December 15, 2013.

Staff's IB. However, in the interest of brevity, Staff has not raised and repeated every argument and response previously addressed in Staff's IB. Thus, any omission of a response to an argument that Staff previously addressed simply means that Staff stands on the position taken in Staff's IB because further or additional comment is neither needed nor warranted.

B. Nature of AIC's Operations

See I.A. above.

C. Legal Standard

With respect to rate design and cost allocation, Section 16-108.5(c) provides as follows:

> Until such time as the Commission approves a different rate design and cost allocation pursuant to subsection (e) of this Section, rate design and cost allocation across customer classes shall be consistent with the Commission's most recent order regarding the participating utility's request for a general increase in its delivery services rates.
>
> . . .

220 ILCS 5/16-108.5(c).

Section 16-108.5(c) further specifies the timing for when any changes shall be made to new rates. This section provides:

> Any change ordered by the Commission shall be made at the same time new rates take effect following the Commission's next order pursuant to subsection (d) of this Section, provided that the new rates take effect no less than 30 days after the date on which the Commission issues an order adopting the change.

<u>Id.</u>

Finally, the provisions of EIMA, specifically, Section 16-108.5(e) provides:

> Nothing in subsections (c) or (d) of this Section shall prohibit the Commission from investigating, or a participating utility from filing, revenue-neutral tariff changes related to rate design of a performance-based formula rate that has been placed into effect for the utility. Following

> approval of a participating utility's performance-based formula rate tariff pursuant to subsection (c) of this Section, the utility shall make a filing with the Commission within one year after the effective date of the performance-based formula rate tariff that proposes changes to the tariff to incorporate the findings of any final rate design orders of the Commission applicable to the participating utility and entered subsequent to the Commission's approval of the tariff. The Commission shall, after notice and hearing, enter its order approving, or approving with modification, the proposed changes to the performance-based formula rate tariff within 240 days after the utility's filing. Following such approval, the utility shall make a filing with the Commission during each subsequent 3-year period that either proposes revenue-neutral tariff changes or re-files the existing tariffs without change, which shall present the Commission with an opportunity to suspend the tariffs and consider revenue-neutral tariff changes related to rate design.

220 ILCS 5/16-108.5(e).

II. COST ALLOCATION

A. Resolved Issues

i. Allocation Using Supply and Service Voltage Designations

ii. Functionalization of Overheard Distribution Lines

iii. Use of CUST370 and CUST370A Allocation Factors for Meter Investments

B. Contested Issues

i. Allocation for Primary Distribution Line Costs

Staff continues to recommend the Commission direct AIC to allocate primary line costs to the customer classes using the modified allocator agreed upon by Staff and AIC. (*See* AIC Cross Ex. 3; Tr. 132:3-6.) The modified allocator represents a compromise position between Staff and AIC, and according to AIC, this result is reasonable given the recent history on this issue and the fact the agreement, as a whole, addresses AIC's DS-5 and DS-6 customer class concerns. (AIC IB, 8-9.)

IIEC opposes Staff's recommendation that the CP allocator be used to allocate costs of primary distribution lines. Despite Staff's arguments and the AIC-Staff compromise position on the issue, IIEC continues to advocate using a non-coincident peak ("NCP") allocator for all primary distribution lines rather than the coincident peak ("CP") allocator, which the Commission approved in AIC's prior case and in other recent cases. IIEC continues to rely on largely the same arguments in favor of the NCP allocator as it did in Docket Nos. 09-0306 though 09-0311 (Cons.), and provides no new information as to why the Commission should change its position with respect to this issue in the instant proceeding. Additionally, despite IIEC's reliance on AIC's previous arguments in favor of the NCP allocator (*see* IIEC IB, 7-12) the reality is that AIC and Staff reached a compromise agreement to limit contested issues, which is reasonable as a whole. Id., 10-12. As with any cost allocation issue, the Commission's goal should be to allocate costs to those customers who cause the costs. Because the modified Primary Distribution Line allocator utilizes the CP and NCP allocators to reach equitable results for the various rate classes, the Commission should reject IIEC's approach.

As explained more fully in Staff's testimony and IB, the Commission should continue to use the CP allocator for primary distribution lines. (Staff IB, 8-12). Moreover, using the CP allocator is consistent with recent Commission decisions. The Commission considered this issue in AIC's last electric rate case, Docket Nos. 09-0306 - 09-0311 (Cons.), and decided in favor of a CP allocator rather than an NCP allocator for primary distribution lines. (Staff Ex. 1.0C, 24). This issue was also a topic of debate in ComEd Docket No. 08-0532 (Commission's Rate Design Investigation case) and Docket No. 10-0467 (ComEd's Proposed general increase in electric rates) where the Commission again adopted the CP allocator. (Staff Ex. 1.0C, 29.) Aside from the modified allocator agreed upon by Staff and AIC, there are no new compelling arguments or evidence to support reversing course in this case and using an NCP allocator for all primary distribution lines. (Staff Ex. 1.0C, 30.)

Not only is using the CP allocator for primary distribution lines consistent with recent Commission decisions, the evidence shows that using an NCP allocator for all primary distribution lines as initially proposed by AIC, and still advocated by IIEC, would not accurately reflect how the costs of primary distribution lines are caused. (Staff Ex. 1.0C, 27-28.) Distribution lines (and substations) are generally constructed to serve, not just of any individual rate class, but rather the demands of multiple rate classes that collectively use those facilities. If these facilities were to serve customers from a single rate class, then the peak demands of individual rate classes would determine their size and ultimate cost. However, individual facilities serve customers from numerous rate classes. Therefore, the design would have to take into account the combined CP demands of customers from all classes served. Id.

For these reasons, the Commission should adopt the modified allocator agreed upon by Staff and AIC. If the Commission is not inclined to accept the modified allocator agreed upon by Staff and AIC, then the Commission should accept the continued use of the CP allocator for the reasons discussed above.

ii. Allocation for Single-Phase and Three-Phase Primary Facility Costs

1. Workshop on the Future Allocation of Single-Phase and Three-Phase Primary Facility Costs

2. Allocation of Single-Phase Primary Facility Costs to Secondary Voltage Customers

iii. Allocator for Non-Meter AMI General and Intangible Plant

III. REVENUE ALLOCATION

A. Resolved Issues

i. Revenue Allocation Methodology – Rate Zone Allocators

B. Contested Issues

i. Revenue Allocation Methodology – Rate Moderation

1. Treatment of Electric Distribution

2. Rate Mitigation Alternatives

In its IB, AIC argued that “there is nothing in the record to indicate whether Staff would support IIEC’s alternative or the AIC alternative.” (AIC IB, 27.) In this Reply Brief, Staff will clarify its position based on the totality of the record.

During the direct testimony phase, Staff supported AIC’s initial rate mitigation proposal, finding it reasonable given the slow movement towards cost-based rates for DS-4 class to date. (Staff Ex. 1.0C, 22.) In rebuttal testimony, however, Staff withdrew its initial support for AIC’s rate mitigation proposal because, subsequent to reviewing additional information on the issue provided by IIEC, Staff agreed with IIEC’s argument in favor of eliminating the first of three rate mitigation tiers, as originally proposed by AIC, in order to avoid significant higher bill impacts on the High Voltage and 100kV and Above sub-class customers. (Staff Ex. 4.0, 6-7.) In its rebuttal testimony, IIEC provided an additional modification to its initial rate mitigation alternative proposal, which was essentially a “middle ground” approach, apparently in order to alleviate some of AIC’s concerns regarding IIEC’s initial rate mitigation alternative which created too slow of movement towards cost-based rates for the DS-4 class. This “middle ground” approach increased the 10% criterion to 20% and the 1.5 times system average increase criterion to 1.75, while still proposing to eliminate the 0.05 ¢/kWh first tier. (IIEC Ex. 3.0C, 20.) In surrebuttal testimony, AIC provided yet another alternative to IIEC's "middle ground" rate mitigation proposal. (Ameren Ex. 7.0, 14, 35; CG Cross Ex. 1.0.) AIC proposed that if the Commission decides that a longer phase-in to cost-based rates is desired, the first tier of 0.05 ¢/kWh could be lowered to 0.025 ¢/kWh. Id. Staff did not have an opportunity to provide its opinion with respect to these two alternatives proposed by IIEC and AIC. Therefore, in light of Staff's support for IIEC's initial modification to AIC's rate mitigation proposal and due to some of the later issues identified by AIC regarding the pace in which the DS-4 class will move towards cost based rates, Staff offers a clarification regarding its position on this issue at this stage of the briefing process.

Determining an appropriate rate impact mitigation plan in any rate proceeding requires a balancing act weighing various considerations. Rate mitigation tries to ensure that approved rates do not create rate shock for customers. Mitigation strategies serve an important role in promoting rate continuity and rate stability while considering potential bill impacts that could result as rates are moved toward the actual cost of service.

In the last three AIC delivery service proceedings, the Commission has affirmed its goal of implementing costs-based rates, but has chosen not to move completely to rates reflecting the full cost of serving each customer class. In Docket Nos. 09-0306 – 09-0311 (Cons.), the Commission approved an electric rate mitigation plan that included the bill impact of the PURA tax and implemented Staff's proposed 150% increase limit at the subclass level. (*See* AmerenCILCO, *et al.*, ICC Docket Nos. 09-0306 through 09-0311 (Cons.), 295 (April 29, 2010).) In Docket No. 11-0279, the parties were a step closer to implementing another rate mitigation mechanism, which would gradually move the DS-4 rate class closer to cost, however, Docket No. 11-0279 was withdrawn before a final order could be entered. (*See* Ameren Ill. Co., Docket 11-0279, Proposed Order (Nov. 15, 2011), 179, 185, 198.).

The Proposed Tariffs in the instant proceeding reflect yet another rate mitigation approach for movement toward rates reflecting the full cost of serving each customer class. However, exactly how the Commission's final order should reflect that is in dispute.

In Docket No. 11-0279, the Proposed Order had the following language with respect rate impact mitigation:

> At the outset, the Commission must clarify that it did not intend to create a minimum rate impact mitigation standard in Docket Nos. 09-0306 et al. (Cons.) Nor did the Commission mean to suggest that rate stability and avoidance of rate shock is an overarching goal that, in the presence of conflicting goals, trumps other revenue allocation and rate design criteria. As indicated in AIC's last rate proceeding, the Commission continues to supports rates designed to reflect the cost of service and considers the elimination of inter- and intra-class subsidies in AIC's rates to be an important goal. But at the same time, strict adherence to the principle of cost causation in designing rates can be tempered by a need to maintain gradual rate increases and avoid rate shock in certain situations.

(Ameren Ill. Co., Docket No. 11-0279, Proposed Order (Nov. 15, 2011), 185.)

Despite the fact that bill impacts are not the only concern in allocating the revenue requirement, Staff is concerned about bill impacts for some of AIC's largest ratepayers. However, Staff acknowledges that costs are important as well. Therefore, Staff believes that the best way to balance these two concerns is through a meaningful and balanced constrained class revenue allocation approach. In light of the numerous rate mitigation alternatives which were offered in this proceeding, Staff maintains that any effort by the

Commission to address bill impacts in the revenue allocation process must be consistent and fair to all rate classes.

To illustrate Staff's position on the issue from another angle, Staff does not necessarily wholly oppose AIC's constrained alternative revenue allocation proposals in their entirety. Staff believes, however, that it is important to note the apparent inconsistency between AIC's support for the rate limiters for the benefit of grain drying customers, but apparent lack of concern for other large customers. In other words, while the Rate Limiter Credits for grain dryers will be reduced each of the next 3 rate years and set to be eliminated completely by the next rate redesign proceeding (gradual approach that helps the grain dryers) (*see* Ameren IB, 37-39), Staff maintains that this must be contrasted with enormous increases in delivery service rates for some of AIC's largest customers who do not happen to be grain dryers. Staff views this disparity as yet another reason for the Commission to carefully select Staff's alternative, which will produce the least draconian rate impact result for some of AIC's largest customers. In sum, Staff considers IIEC's rate mitigation alternative proposals as a justified modification, not a complete barrier to AIC's goal of moving the DS-4 class closer to cost.

The point is, it is the actual bills that customers pay which determine the degree of rate shock. The bills that the subclasses would pay under the AIC alternatives in this case are dramatically different, even within the same rate class. Because of the huge increases that AIC's initial rate moderation proposal produces for subclasses within the DS-4 rate class, Staff maintains that the IIEC's rate mitigation proposal, particularly the "middle ground" proposal, is reasonable. However, Staff supports IIEC's alteration only to the extent that the time period to achieve full subsidy reduction would not be considered as absurd in its length by the Commission. While Staff believes the

Commission should select a rate mitigation alternative that would protect the DS-4 subclasses from draconian increases, at the same time Staff argues that the DS-4 class should not remain in this subsidy limbo for much longer.

For example, the IIEC initially proposed (and Staff agreed) to entirely eliminate the 0.05 ¢/kWh limitation, i.e. the first-tier in AIC's initial three-tier recommendation. However, as pointed out by AIC, this would allow the EDT subsidy to exist for many more years: 13 years on average across AIC, 19 years in Rate Zone 1, 7 years in Rate Zone II, and 17 years in Rate Zone III. (Ameren Ex. 4.0, 23–24.) In rebuttal, IIEC's "middle ground" alternative, which Staff believes to be a significant enhancement to IIEC's first alternative, still apparently creates a situation where it would take Rate Zone I 10 iterations, Rate Zone II 4 iterations and Rate Zone III 9 iterations to achieve a uniform EDT Cost Recovery charge, assuming no other costs changed over the duration of those iterations for DS-4 +100 kV supply customers. (Ameren Ex. 7.0, 14.)

Rate moderation is an important goal, but given the fact that the DS-4 class enjoyed a relatively prolonged subsidy period, the Commission should take this into account when modifying the constraints in the revenue allocation. IIEC's "middle ground" approach is a dramatic improvement to its initial alternative rate mitigation proposal, and Staff recommends the Commission adopt it. However, should the Commission consider it as too slow a movement towards cost based rates, then the Commission should adopt AIC's second alternative which would allow for a uniform EDT rate in fewer formula rate iterations (five) than IIEC's alternative rate modification. (Ameren Ex. 7.0, 14, 35; CG Cross Ex. 1.0.)

IV. RATE DESIGN

A. Resolved Issues

i. Methodology for Setting Uniform Charges Across Rate Zones

ii. Use of Average Cost Data for DS-3 and DS-4 +100kV Customers

iii. DS-5 Fixture and Distribution Delivery Charges

iv. Electric Uncollectible Recovered in Base Rates

v. Allocation of Reconciliation Balance to Electric Distribution Tax

vi. Other Meter, Transformation, Reactive Demand, and Distribution Delivery Charges

vii. Use of SFV Rate Design for DS-2 Customer Charge

viii. Miscellaneous Tariff Changes

B. Contested Issues

i. Transformation Capacity Charge for Rate Zone II DS-4 +100 kV

Ameren and the IIEC claim that Ameren's proposal to depart from uniformity for the Transformation Capacity Charge for DS-4 + 100 kV Rate Zone II for customers who have taken service as of December 31, 2012, is justified. (Ameren IB, 34-36; IIEC IB, 34.) For all the reasons already set forth in Staff's testimony and IB, Staff continues to recommend maintaining the rate uniformity for the Transformation Capacity Charge for DS-4 + 100 kV, despite Ameren and IIEC's arguments to do otherwise. Id. Staff notes that the rate uniformity recommended by Staff has been established in several rate cases.

As Ameren and IIEC correctly point out, rate uniformity for both Electric Distribution Tax ("EDT") prices and equal Transformation Capacity Charges is not possible for this particular subclass of customers in this case. (IIEC IB, 34 (*citing* Ameren Ex. 7.0, 16).) Staff continues to recommend, however, that the Transformation Capacity Charges for this subclass should maintain the established uniformity of the Transformation Capacity Charges and the EDT should take a step toward uniformity, yet be set so it does not recover more than its share of the total allocated revenue requirement for this subclass. This would maintain the rate uniformity that has already been established while still permitting some movement toward rate uniformity for the EDT. (Staff IB, 21.)

ii. Seasonally Differentiated Rates for the DS-3 and DS-4 Classes

1. Timetable for Elimination of DS-3 and DS-4 Rate Limiter Credits

2. Proposed DS-6 Temperature Sensitive Delivery Service

iii. Use of SFV Rate Design for DS-1 Customer Charge

V. CONCLUSION

WHEREFORE, for all of the above reasons and the reasons set forth in Staff's IB, Staff respectfully requests that the Commission's order in this proceeding reflect all of Staff's recommendations regarding the Company's tariffs and charges submitted pursuant to Section 16-108.5(e) of the Public Utilities Act.

January 14, 2014

Respectfully submitted,

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